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SUBJ: PALM OIL: POSSIBLE USG RESTRICTIONS ON IMPORTS

1. INTRODUCTION: SEVERAL RECENT STATEMENTS AND ACTIONS IN THE U.S. REGARDING PALM OIL HAVE CAUSED CONSIDERABLE CONCERN HERE AND RAISED FEARS OF POTENTIAL HARM TO MALAYSIAN PALM OIL INDUSTRY. EMBASSY REQUESTS GUIDANCE ON RESPONDING TO INQUIRIES FROM GOM AND PRIVATE SECTOR RE USG INTENTIONS WITH RESPECT RESTRICTIONS ON IMPORTS OF PALM OIL INTO U.S. THIS CABLE ALSO REPORTS FACTS ON PALM OIL INDUSTRY IN MALAYSIA THAT MAY PROVIDE USEFUL PERSPECTIVE.

2. AS REPORTED PREVIOUSLY, PALM OIL IS VITAL EXPORT COMMODITY TO MALAYSIAN ECONOMY. IT WAS NUMBER TWO EXPORT EARNER IN 1975 AND GOM HAS AND CONTINUES TO INVEST LARGE SUMS IN DEVELOPMENT OF PALM OIL. THUS, PALM OIL IS OF SUPREME INTEREST TO GOM AND EVENTS BEARING ON PALM OIL MARKET RECEIVE IMMEDIATE ATTENTION AT HIGHEST LEVELS OF GOVERNMENT.

3. SEVERAL RECENT EVENTS IN U.S. HAVE CAUSED GOVT AND PRIVATE SECTOR CONCERN OVER USG INTENTIONS REGARDING IMPORTS OF PALM OIL INTO U.S. THESE ARE:

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A. 1975 SOYBEAN CROP IN U.S. IS 40.1 MILLION METRIC TONS, SECOND

LARGEST ON RECORD AND UP 19 PERCENT FROM PREVIOUS YEAR. TOTAL CONSUMPTION OF U.S. SOYBEANS IN 1976/76 IS EXPECTED AT ABOUT 35 MILLION MT, NOT ENOUGH TO EQUAL PRODUCTION.

B. TRADE PRESS REPORTED NOVEMBER 1975 THAT ASST SECRETARY OF AGRICULTURE RICHARD BELL SAID THAT USG SHOULD CONSIDER TALKING PALM OIL SUPPLIERS INTO VOLUNTARILY AGREEING TO LIMIT SHIPMENTS TO U.S.

C. USG DECISION TO SELL 40,000 MT OF COTTONSEED AND SOYBEAN OIL TO PAKISTAN UNDER TITLE I, PL 480, WHICH SALE GOM VIEWS AS REDUCING ORDERS FOR MALAYSIAN PALM OIL FROM PAKISTAN.

D. "NEW STRAITS TIMES", JANUARY 12, 1976, CARRIED ARTICLE DATE-LINED SPRINGFIELD, ILLINOIS, JANUARY 11, IN WHICH ILLINOIS AGRICULTURAL COMMISSIONER ROBERT PUD WILLIAMS QUOTED AS SAYING THAT PALM OIL PRODUCED MAINLY IN INDONESIA AND MALAYSIA IS GOING CAUSE HAVOC IN SOYBEAN BUSINESS, SERIOUSLY DAMAGE U.S. BALANCE OF PAYMENTS, AND ULTIMATELY RAISE PRICE OF FOOD TO U.S. CONSUMERS. WILLIAMS SAID STATE DEPARTMENT, OVER OBJECTIONS FROM DEPT. OF AGRICULTURE, PERMITTED WORLD BANK LOANS FOR DEVELOPMENT OF PALM OIL. LOAN FUNDS CAME IN PART FROM AMERICAN CAPITAL AND TAX DOLLARS.

4. BACKGROUND ON MALAYSIAN PALM OIL INDUSTRY: PALM OIL PRODUCTION IS ESTIMATED TO INCREASE FROM 1.2 MILLION LONG TONS IN 1975 TO 1.43 MILLION LONG TONS IN 1976 AND 2.63 MILLION LONG TONS IN 1980. PALM OIL PRODUCTION PROJECTED CONTINUE INCREASE OVER NEXT TEN YEARS WITH MOST RAPID INCREASE DURING PERIOD 1976-80. OIL PALM TREES REACH BEARING AGE ABOUT 30 MONTHS AFTER FIELD PLANTING, REACH PEAK PRODUCTION (1.5 - 3.0 TONS PALM OIL PER ACRE PER YEAR, DEPENDING ON LOCATION) AT 8-10 YEARS, AND CONTINUE PRODUCING UP TO 25 YEARS. FRESH FRUIT BUNCHES (FFB) MUST BE HARVESTED AT POINT OF MATURITY TO ASSURE MAXIMUM OIL YIELD. ONCE HARVESTED, FFB MUST BE PROCESSED (STERILIZED) WITHIN HOURS TO DESTROY ENZYMES WHICH OTHERWISE CAUSE CONTINUAL RISE IN FREE FATTY ACID (FFA), THE LEVEL OF WHICH CONTROLS THE LEVEL OF PREMIUM PAID FOR THIS QUALITY FACTOR (UNDER THREE PERCENT FFA COMMANDS PREMIUM, OVER FIVE PERCENT FFA RESULTS IN DISCOUNT). BEARING TREES IN FEMALE CYCLE YIELD MATURE FFB CONTINUOUSLY LIMITED OFFICIAL USE

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THROUGHOUT THE YEAR, AND MALAYSIA HAS BULK STORAGE CAPACITY ENOUGH FOR ONLY ABOUT 15-20 PERCENT OF CURRENT PRODUCTION. PALM OIL IS SOLD FORWARD 4-6 MONTHS AND CURRENT PRODUCTION IS SHIPPED ALMOST IMMEDIATELY TO COVER THOSE COMMITMENTS. THERE ARE ONLY LIMITED SPOT QUANTITIES AVAILABLE IN MALAYSIA.

5. ADDITIONALLY, PALM OIL PLAYS SIGNIFICANT ROLE IN GOVT'S EFFORTS TO RAISE INCOMES IN RURAL AREAS AND RESETTLE LANDLESS

PEOPLE. DURING PERIOD OF SECOND MALAYSIA PLAN, 1971-75, LARGEST SINGLE EXPENDITURE WAS FOR LAND DEVELOPMENT SCHEMES, RUBBER AND PALM OIL, WITH MAJOR EMPHASIS ON PALM OIL. UP TO MID-1975 GOVT RESETTLED ABOUT 31,000 FAMILIES ON LAND DEVELOPMENT SCHEMES; AND GOM WILL CONTINUE RAPID DEVELOPMENT OF LAND SCHEMES DURING THIRD MALAYSIA PLAN, 1976-80. THUS, GOM COUNTING HEAVILY ON PALM OIL NOT ONLY AS AN EXPORT EARNER, BUT ALSO IN EFFORTS TO IMPROVE ECONOMIC CONDITIONS IN AGRICULTURAL SECTOR.

6. IMPLICATIONS FOR U.S.: GIVEN NATURE OF PALM OIL ECONOMY, MALAYSIANS HAVE NO CHOICE BUT TO SELL PALM OIL IN WORLD MARKETS. THEY DO NOT HAVE ALTERNATIVE OF LEAVING PALM FRUIT UNHARVESTED AND HAVE ONLY LIMITED CAPACITY (OR FINANCIAL STRENGTH) TO STORE PALM OIL, PRIMARILY BULK STORAGE AT PORTS AWAITING SHIPMENT. IF U.S. MARKETS RESTRICTED OR CLOSED, MALAYSIA WILL SELL EQUIVALENT QUANTITIES ON WORLD MARKET (THUS AFFECTING U.S. SOYBEAN OIL SALES) AT PRICES WHICH WILL INSURE SALE.

7. ACTION REQUESTED: WE WOULD APPRECIATE RECEIVING BACKGROUND INFO ON CURRENT THINKING IN WASHINGTON (AGRIC, STATE, ETC.) ON POSSIBLE IMPORT CONTROLS ON PALM OIL AND GUIDANCE ON RESPONDING TO INQUIRIES FROM GOM AND PRIVATE SOURCES THIS SUBJECT.
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